

# LOST RIVER

MINING CORPORATION  
LIMITED



ANNUAL REPORT 1971



FRONTISPIECE ILLUSTRATIONS:  
TOP, SERVICING THE ISOLATED  
LOCATION OF THE LOST RIVER  
MINING CORPORATION PRO-  
JECT ON THE SEWARD PENIN-  
SULA OF ALASKA IS THE COM-  
PANY PLANE, A MODIFIED  
LOCKHEED LODESTAR, WHICH  
UTILIZED THE SUPPLY AND  
COMMUNICATIONS FACILITIES  
OF BOTH NOME AND AN-  
CHORAGE.

BOTTOM, LOCAL ALASKAN  
LABOR IS ALREADY AN IMPOR-  
TANT FACTOR IN THE LOST  
RIVER PROJECT, AND WILL BE-  
COME INCREASINGLY MORE SO.  
ILLUSTRATED IS A DIAMOND  
DRILL CREW INCLUDING LOCAL  
NATIVES WHO HAVE PROVEN  
ABLE AND WILLING WORKERS,  
WITH PARTICULAR MECHANI-  
CAL SKILLS. AS THE PROJECT  
ACCELERATES, MORE AND  
MORE LOCAL EMPLOYEES WILL  
BE TRAINED FOR THE MYRIAD  
OF SPECIALTY JOBS THAT WILL  
DEVELOP.

## OFFICERS and DIRECTORS

**DIRECTORS** MURRAY WATTS, Toronto, Canada  
PEARCE WALSH, Nome, Alaska  
R. C. SHEARDOWN, Toronto, Canada  
H. B. MEGILL, Toronto, Canada  
RALPH HEDLIN, Toronto, Canada

**OFFICERS** MURRAY WATTS, *President*  
R. C. SHEARDOWN, *Vice-President*  
H. B. MEGILL, *Executive Vice-President*  
R. PALMER, *Secretary-Treasurer*

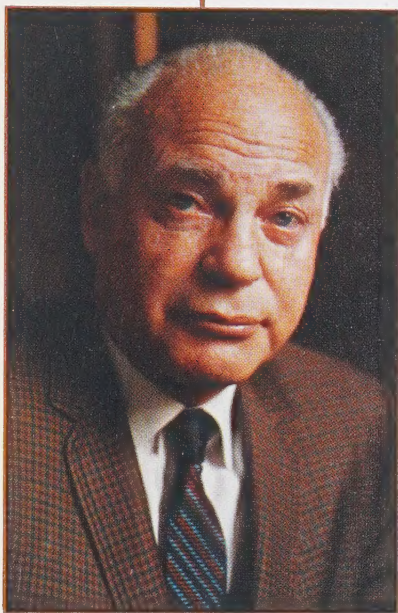
**REGISTRAR AND  
TRANSFER AGENT** GUARANTY TRUST COMPANY OF CANADA,  
Toronto, Canada

**AUDITORS** FULLER, JENKS, LANDAU & Co.,  
Toronto, Canada

**SOLICITORS** PROUSKY, LINDZON & BIBACK,  
Toronto, Canada

**OFFICES** Head Office: 420-159 Bay Street,  
Toronto, Canada  
Field Office: 800 Cordova Street,  
Anchorage, Alaska

**SHARES LISTED** "LR", The Toronto Stock Exchange



# LOST RIVER MINING CORPORATION LIMITED

## President's Report

May 27, 1972

### TO THE SHAREHOLDERS:

Please find herewith the Annual Report of the Company, together with the Financial Statement for the fiscal period ending December 31, 1971.

Funds supplied to the Company since its incorporation in early 1970 total \$3,600,000 leaving current working capital of \$1,363,657 as of April 30, 1972.

A brief summary of the "Preliminary Feasibility Report" by Mr. Jack McOuat, P.Eng., of the independent consulting firm of Watts, Griffis and McOuat Ltd., dated May 25, 1972, is attached which also includes the current State of Alaska legislative progress on the creation of a "Development City" in order that the "City of Lost River" be incorporated.

For organizational purposes, the above report is divided into two distinct phases as designated by Volume I and Volume II, with separate "Environmental Impact Statements" attached to each.

**VOLUME I** — Includes the progress upon engineering planning and statistical data upon the mining, milling, transportation and marketing of the concentrates or beneficiated products.

These functions — both technical and financial — are delegated as the responsibilities of the mining company.

**VOLUME II** — Includes the progress in engineering, planning, and statistical data upon the founding of the community or town — now named the "City of Lost River" — which includes all its infra-structural facilities such as the sea-dock or marine terminal, the electric power, the town housing with its various services of electrical distribution, heating, fresh water, sewage disposal, street roads, airfield, communications, etc.

These functions — both technical and financial, are delegated as responsibilities of the City of Lost River. Special governmental legislation was introduced by the State of Alaska under Senate Bill No. 405 and Senate Bill No. 406, the first being named the "Development City Act" while the other creates the "City of Lost River". These have now passed the Senate and the House of Representatives with a unanimously favourable vote after both State and Committee hearings with public attendance.





# LOST RIVER MINING CORPORATION LIMITED

## President's Report (Cont'd):

The passing of these Acts allows the "City of Lost River" to become eligible and to apply for available State and Federal Financial grants or loans (which can be self-funding) in order to cover the planning and construction costs of the town with its related services and infra-structural facilities. The mining company would pay for its share as an operating cost for such services — the same as any other industrial user.

### SUMMARY RESULTS — PRELIMINARY FEASIBILITY REPORT

With respect to the economics of the mining and treatment of its fluorite-tin-tungsten ore, pertinent data extracted from the consultant's report is summarized as follows:

1. THE ORE RESERVES will support a mining operation at a daily treatment rate of 4,000 tons per day for at least 20 years — from No. 1 and No. 2 zones only.
2. THE ADDITIONAL ORE POTENTIAL for future exploratory purposes in zones (1), (2), (4), (5), (6), (7) and (3), covering some 5 miles in strike length along the major Rapid River thrust fault, is believed excellent for the development of additional future long term reserves.
3. THE CAPITAL COST TO PRODUCTION BY THE COMPANY for its facilities would total some \$47,000,000. This assumes that the capital cost of the infra-structural facilities for Lost River City are financed through enabling existing State and Federal legislation — which latter facilities include the dock, townsite (and its services), water, power, roads and airfield.
4. THE ESTIMATED VALUE OF THE YEARLY MINERAL PRODUCTION in fluorite and tin concentrates is \$28,000,000 at present recoverable extraction rates and market prices. No consideration or value has as yet been allotted the tungsten.
5. THE RE-PAYMENT OF THE CAPITAL INVESTED BY THE COMPANY is forecast to require some *three to five years* depending upon various assumptions on all costs and risk factors. These latter are expectantly more than usual, due to its relative isolation, remoteness and climatic problems in an area without precedents for similar type mining operations.

It can be noted that preliminary consumer or marketing interest in fluorite and tin, including interest in final financing to production, has been received from Japanese, United States, Canadian and European concerns — especially so with respect to fluorite for use in the aluminum, steel and the chemical industries. No commitments have yet been made by the Company in this respect — nor is any intended until the metallurgical investigations by pilot plant tests at the Colorado Research Foundation at Golden, Colorado, reach their final phases. It is anticipated that such final results can be to the further economic benefit of the Company.

### PLANS — 1972 PROGRAM

Plans for the 1972 program of work anticipate a total estimated expenditure of \$2,000,000 to \$3,000,000 with a "Final Feasibility Report" containing final design and costing for an integrated operation to be completed about one year from this date. It is possible production could be achieved in 1975 or 1976.

Metallurgical work in 1972 will include continuing the pilot plant bulk testing at Colorado Research with present and later additional bulk samples from No. 1 zone and to a lesser extent from No. 2 zone.





PHOTO RIGHT CORNER SHOWS AN OCEAN-GOING BARGE BEING LOADED WITH BULK SAMPLE MATERIAL FOR METALLURGICAL RESEARCH. THE BARGE IS BEACHED AT APPROXIMATE LOCATION WHERE NEW HARBOR FACILITIES ARE TO BE DEVELOPED. THE CURRENT PROGRAM INCLUDES SHIPMENT OF MORE THAN 100 TONS OF ORE MATERIAL FOR TEST PURPOSES.



### President's Report (Cont'd):

Further exploratory diamond drilling will be completed on each of zones 1 and 2 for fill-in purposes to further confirm grade and tonnage for mining purposes, including open-pit slope boundaries. An additional representative composite drill core sample from No. 1 zone is also planned in addition to a large surface bulk sample to be taken across a width of about 500 feet — more particularly for tin recovery — as little has been done in this respect as yet — similarly for tungsten. It would serve for pilot plant beneficiation purposes.

However, a major cost and effort this coming season will be the concentrated effort upon the architectural and engineering design with surveying, and final costs estimates for the project. Liaison with the United States Federal and State Agencies concerned with the construction and financing of the "City of Lost River", with its related facilities and services, would be included.

The "City of Lost River" will be managed separately as an independent operation from the Company, through a City Council whose members will include representatives of the Company and the State of Alaska as appointed by the Governor. The Company would gradually relinquish and finally sever its representation on the Council within specific time and population limits after production has been achieved.

Practical provision for the future is thus made for both local and regional industrial population expansion on a long term basis, in addition to the immediate company requirements of some 300 direct employees (say 1,500 people). Every effort will be made to avoid the mistakes of the unsatisfactory typical company town of the past with its restricted industrial functions and life span.

Grateful acknowledgement in the success of the company to date is made of the loyalty and co-operation of Mr. J. McOuat and the various consultants together with that of the resident manager, Mr. Ronald Sheardown, his engineering staff, the drilling crews and others on surface work — all of whom performed arduous duties well beyond the normal call of duty.

On Behalf of the Board of Directors,

A handwritten signature in dark ink, reading "Murray Watts". The signature is fluid and cursive, with a large initial "M".

MURRAY WATTS,  
President

LOST RIVER MINING CORPORATION LIMITED



# LOST RIVER MINING CORPORATION

## Consultant's Report, 1971-2

May 25, 1972

President and Directors  
Lost River Mining Corporation Limited  
Suite 420, 159 Bay Street  
Toronto, Ontario

Gentlemen:

I take pleasure in submitting this summary review of your 1971 operations and Volumes I and II of the Preliminary Feasibility Studies prepared by our firm. The data for these studies was obtained from company records and from the reports of the various independent consultants retained to cover specific aspects of your many-faceted major fluorite-tin-tungsten project on the Seward Peninsula, Alaska.

At this time the following conclusions can be presented:

1. Sufficient fluorite-tin-tungsten ore reserves in No. 1 and No. 2 Zones have been outlined to support a 4,000 ton per day plant for 20 years.
2. Excellent geological potential exists to develop additional reserves in the 7 zones recorded to date including Zone 1 and Zone 2.
3. Metallurgical testing on a pilot plant scale has shown that saleable grades of fluorite at acceptable recoveries can be produced.
4. The projected \$47,300,000 investment in the mining operation could be returned in less than five years.
5. The possibility of arranging long term sales contracts for fluorite is excellent and we anticipate no problems in the marketing of the fluorite, tin and tungsten products to be produced.
6. Strong support from both the State of Alaska and concerned Federal agencies has been received and can be expected to continue in all aspects of the project.
7. Liaison with State and Federal environmental protection agencies has established that no major obstacles affecting any aspect of the development have been identified.

In view of the foregoing, we have no hesitation in recommending that the company proceed with its investigations and the preparation of a final feasibility study for both the mining operation and for the City of Lost River.

### Field Work

During 1971, work performed as reported by the company included:

- A. A total of 23,376 feet of diamond drilling principally in Zone 1, with 1,905 feet in 8 holes being completed in Zone 4; all drill cores were split and one-half sent to Skyline Laboratories in Denver, Colorado, for analysis; regular check analyses were conducted by the United States Bureau of Mines and by Battelle Memorial Institute;
- B. The selection and mining of an 84-ton bulk sample from surface trenches representing approximately a 500-foot width over Zone 1;
- C. The selection and investigation of the proposed dock site. Work under the direction of Carr-Donald and Associates, dock consultants, and Racey McCallum and Bluteau Ltd., foundation specialists, consisted of ice and water depth measurements and soil boring tests in the area of the proposed dock sites;
- D. Additional site investigations consisted of preliminary drilling to test soil conditions at the dam site, townsite and airstrip; samples of aggregate material were also acquired and tested against ASTM standards;
- E. A continuing programme of surveying by company personnel including the establishment of a triangulation net between the mine site and the sea coast, and subsequently the preparation of a series of regional topographic maps at a scale of one inch to 400 feet, a survey of the proposed townsite at a scale of one inch to 200 feet, and surveys and maps of Zones 1, 2 and 4 at a scale of one inch to 100 feet.

### Other Investigative Studies

During 1971, Lost River Mining Corporation commissioned a number of other engineering studies. These included:





## CONSULTANT'S REPORT (cont'd):

### 1. **Marine Terminal — Carr-Donald and Associates**

Selection and analysis of alternate marine terminal sites, preliminary design of the terminal and, in conjunction with Weather Engineering of Canada Ltd., studies of wave and wind conditions affecting these sites.

### 2. **Northern Shipping — Captain T. C. Pullen**

Captain Pullen's assignment included an appraisal of the shipping conditions, season and other factors based upon: his extensive experience as a Canadian Icebreaker Captain; a trip to the area as an observer on the U.S. Coast Guard Icebreaker Glacier in March, 1971; and upon a study of available shipping records.

### 3. **Marine Transport — German & Milne**

This firm of naval architects and designers was retained to carry out a preliminary appraisal of the economics of Lost River Mining Corporation Limited owning and operating its own ice strengthened vessel. This study provided a measure of shipping costs using this alternative against which charter quotations can be appraised.

### 4. **Power — Leslie Engineering Limited**

This firm was retained to appraise a variety of methods of providing the power as well as the heating requirements of the proposed operation and associated community.

### 5. **Water Supply — Montreal Engineering Ltd.**

An off-site review was done of all regional and local weather data to outline water supply potential and select preliminary storage or dam sites.

### 6. **Metallurgical Testing — Battelle Memorial Institute**

Battelle continued during the year, under the direction of Mr. F. Everard of Watts, Griffis and McOuat, its investigations on concentration of the fluorite and tin. Work conducted by Battelle was principally on split diamond drill cores.

### 7. **Ore Reserves, Mining, Metallurgy, Marketing, Feasibility — Watts, Griffis and McOuat Limited**

During 1971, this firm was commissioned to continue its supervision of metallurgical testing and, in addition, undertake assignments relating to an appraisal of future fluorite markets, particularly in the U.S.A., Japan and Canada. The firm was also commissioned to calculate independently the ore reserves and develop a mining plan for these reserves.

In January of 1972, Lost River commissioned Watts, Griffis and McOuat to prepare preliminary feasibility studies on your project.

A major assumption made with regard to these studies was that the City of Lost River would be an independent free-standing community, selling community services such as harbour facilities, power, water, heat, etc., to the mining company. This would allow the city to develop independently and serve not only the mine of Lost River Mining Corporation, but also any other industrial or mineral developments and the Seward Peninsula generally.

Volume I of the study entitled "Preliminary Feasibility Report on the Lost River Fluorite-Tin-Tungsten Project for Lost River Mining Corporation Ltd." was submitted to the company on April 15, 1972.

Other contributors to this study included:

1. Scrivener Engineering Limited, whose responsibility covered preliminary concentrating plant design and cost;
2. Kilborn Engineering Limited, who were commissioned to prepare a preliminary layout and cost estimate for the required townsite, from the point of view of the mining operation.
3. Colorado School of Mines Research Institute:

The institute received in January the assignment to treat in its pilot plant, the bulk sample cut from Zone 1. Prior to treating this sample, approval was given for a series of additional laboratory scale tests on both surface and drill core samples. These tests have given and are continuing to give improved results and now form the basis for the metallurgical projections in our report.

I have summarized very briefly below, some of the more pertinent findings in the report.

### **Ore Reserves:**

Reserves established to date are sufficient to feed a 4,000 tons per day mill for 20 years. Potential tonnage based upon geological evidence could be several times initial estimates.

All data was replotted and reserves were independently calculated by Watts, Griffis and McOuat Limited. Ore reserves were calculated for Zones 1 and 2 for mining purposes.





## CONSULTANT'S REPORT (cont'd):

In Zone 1, a cut-off of 7.5%  $\text{CaF}_2$  was utilized and in Zone 2, a cut-off of 15% was used. The higher cut-off in Zone 2 was used to maintain a constant rate of production when mining some lower grade ore from Zone No. 1.

Tonnage with the exception of the underground reserves in Zone 2 is classified either as drill indicated or drill proven. Only a limited amount of drilling is required to be able to classify all open pit reserves as drill proven.

The following table outlines reserves:

**ORE RESERVE SUMMARY**

Zone	Type of Mining	Ore	% $\text{CaF}_2$	% Sn	% $\text{WO}_3$	Tons Waste	Waste/Ore Ratio
1	Open Pit	23,527,000	16.43	0.26	0.040	17,377,000	0.74:1
	Underground	1,275,000	11.66	0.15	0.010	—	—
	Total	24,802,000	16.18	0.25	0.039	17,377,000	
2	Open Pit	2,116,000	30.59	—	—	8,078,000	3.82:1
	Underground	1,695,000	30.00	—	—	—	—
	Total	3,811,000	30.33	—	—	8,078,000	
Total		28,613,000	18.06			25,455,000	

### Metallurgy:

Work at the Colorado School of Mines Research Institute, which began in January of 1972, has resulted in substantially improved recoveries of fluorite, and a marked increase in the proportion of acid grade fluorspar which will be produced.

Based upon the results currently available, the percentage recovery in the feasibility study of 85%, of which 75% is acid grade and 25% metallurgical grade, appears conservative.

Further confirmatory testing of fluorite recovery is under way on 43 representative samples of drill core and on selected surface samples. Fifty of the 84 tons of bulk sample will also shortly be run through the Colorado pilot plant.

During this latter phase, particular attention will be paid to the treatment and recovery by gravity methods of tin concentrate prior to fluorite flotation. Work to date and the historical operations have shown that recoveries of over 50% tin in a saleable product can be made. In our feasibility study we assumed only 50% recovery in a concentrate grading 60% Sn.

### Markets:

Various public projections and private sources available indicate that fluorite consumption will rise from 4,000,000 to 6,500,000 tons by 1975. We have received letters confirming that long term contracts are available for both acid and metallurgical grades in Japan.

United States markets are also available and U.S. producers enjoy some tariff protection.

Prices used in the cash flow projections were median prices based upon actual quotations available to us for sales in Europe, Asia and North America. These were escalated at 4% per year, a figure considered conservative in view of strong demand.

Tin prices net to the mine were below current trading prices and no escalation of tin price was allowed.

### Operation:

Projections were based upon the following:

1. Mining would be conducted on a 9-months per year basis with large crushed ore stockpiles being available to supply mill feed during a three-month winter shutdown.
2. Milling would be at the rate of 4,000 tons per day year round.
3. Shipping would be conducted over a 10-month season using ice strengthened vessels during the four months of this period when significant amounts of ice could be present.

### Environmental Considerations:

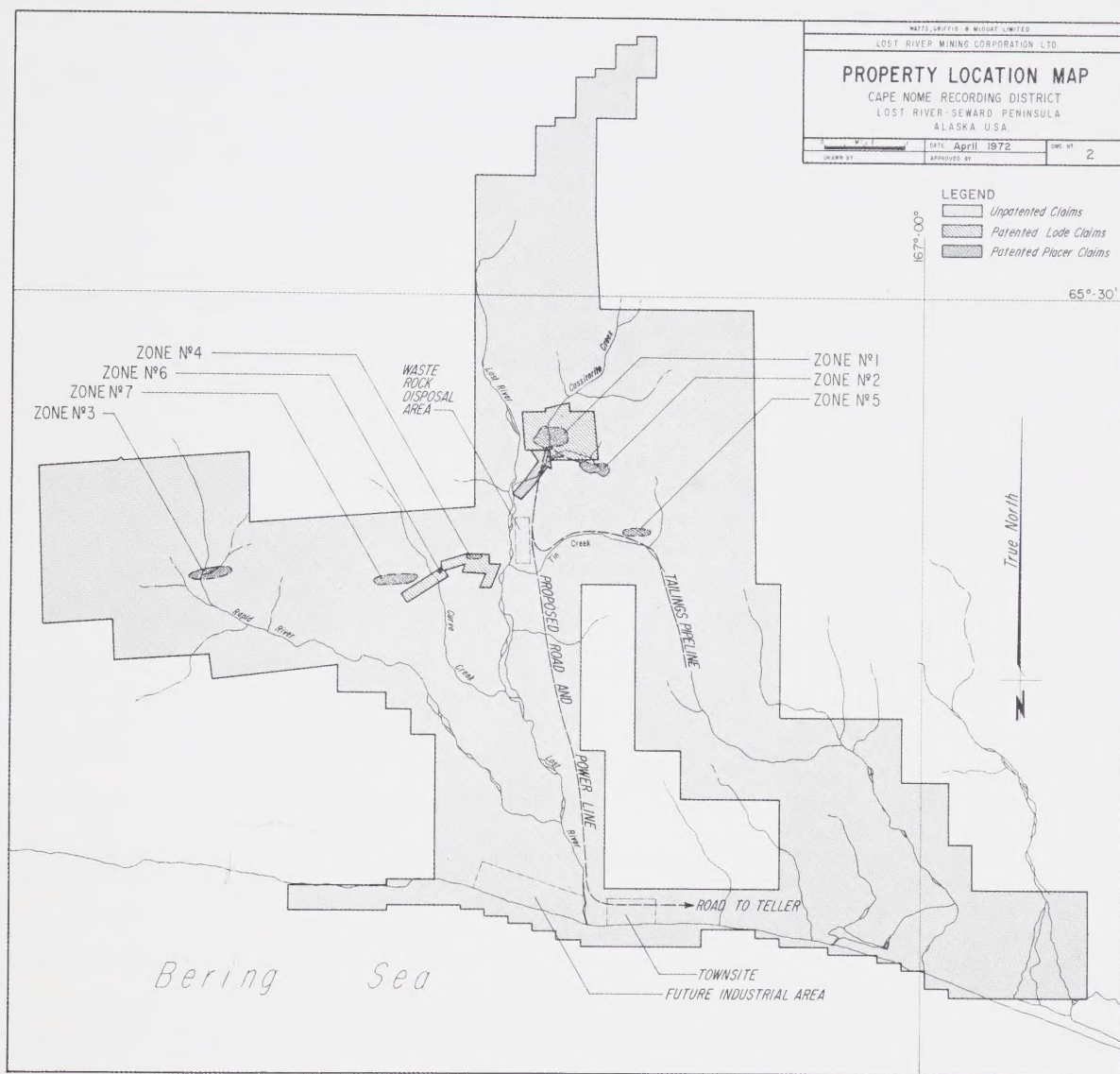
Discussions have been held with officers of the State and Federal agencies concerned with the environment and with the preparation of Environmental Impact Statements. Plans and studies necessary for the preparation of the Impact Statement have been prepared. No major problems have been identified in preparing the Environmental Impact Statement.

### Financial:

A capital investment of \$47,300,000 would be required. This amount includes contingencies, escalation, working capital, financing charges, and owners' costs including those funds necessary to execute a final field programme, complete metallurgical testing and complete design sufficient for the preparation of a final feasibility study.







MAP ABOVE DEPICTS PROPERTIES OF LOST RIVER ON THE SEWARD PENINSULA OF ALASKA. THE MINE-MILL COMPLEX, DESIGNED TO FUNCTION AT AN INITIAL 4,000 TON DAILY RATE, WILL BE LOCATED APPROXIMATELY SIX MILES INLAND, IN THE AREA OF THE NOS. 1 AND 2 ZONES. INITIAL PRODUCTION WILL BE BY OPEN PIT ON THE NO. 1 ZONE. TAILINGS, THE WASTE PRODUCT OF THE MILL FACILITY, WILL BE PIPED TO A DAMMED-OFF DISPOSAL AREA CAREFULLY SELECTED AND ENGINEERED WITH A VIEW TO THE MOST STRINGENT ECOLOGICAL REQUIREMENTS. THE MINE-MILL SITE WILL BE CONNECTED WITH THE TOWN-

SITE BY ALL-WEATHER ROAD, AND A POWER TRANSMISSION LINE WILL FOLLOW THE ROAD ROUTE. THE TOWNSITE AS ENVISAGED WILL BE A REGIONAL SERVICE CENTRE, SERVING NOT ONLY THE LOST RIVER MINE COMPLEX, BUT ALSO THE ENTIRE REGION. EMPHASIS WILL BE PLACED ON TRAINING AND EMPLOYING LOCAL LABOUR. THE HARBOR FACILITY WILL PERMIT DELIVERY OF GOODS TO THE AREA AT COSTS APPRECIABLY LOWER THAN PRESENTLY POSSIBLE, WHILE POWER, WATER AND OTHER SERVICES WILL BE AVAILABLE LOCALLY AND, IN TIME, REGIONALLY ON A COSTS BASIS NOT AVAILABLE AT THE PRESENT.



## CONSULTANT'S REPORT (cont'd):

Operating costs in the order of \$6.15 per ton are projected in the first several years of operation.

Based upon these costs and the revenues forecast, the entire capital investment would be returned in slightly over three years. Financial analysis of these projections indicate a Discounted Cash Flow rate of return of 31%. A series of additional financial analyses were also run on the computer which, for example, included increasing capital costs by 10%, operating costs by 10% and reducing revenues by roughly 25%. Even with the combination of all of these, rate of return was only reduced to 19% and thus a considerable margin of safety is available in assessing the profitability of the project.

### **Lost River City:**

Volume II of our report is entitled "Community Development Programme for the New City of Lost River for Lost River Mining Corporation Ltd."

This volume was submitted to the company on June 15th, following the passage of two Bills in the Alaska Legislature.

Senate Bill 405 related to a general act for the creation and administration of development cities.

Senate Bill 406 established the City of Lost River.

The unanimous passage of these Bills in both houses of the Alaska Legislature clearly establishes the fact that the City of Lost River will not be a company town and that it will be an independent, free-standing community able to act as a regional centre.

Our studies have included a preliminary appraisal of the capital and operating costs for this new city. Incorporated in the city will be a deep-water marine terminal capable of handling vessels up to 35,000 tons, a power plant, water supply, sewage plant, roads, airfields, housing, school, hospital, commercial development, oil storage and communications.

Our review of current legislation and various programmes designed to aid communities including Housing and Urban Development, Rural Electrification Agency, Farmers Home Administration, Economic Development Agency, and many others has shown that the City of Lost River can, as could any other similar development community, expect considerable assistance. Our discussions with State and Federal agencies have confirmed this.

The total capital required for the initial establishment of the previously mentioned facilities is in the order of \$40,000,000.

Based upon the estimates of these capital and operating costs, we have shown payments by the mining company for the use of services, such as, water, power and dock, which are sufficient to service the investment and make the City of Lost River a financially viable community.

Initial population in the community has been forecast at about 1,500 persons. Future population growth is expected as the city develops as a regional centre and other industries and governmental agencies are established.

The sources of capital required for the establishment and operation of the community are, in addition to grants and low cost loans from the federal agencies previously mentioned, various state programmes and the city's own fund raising capacity.

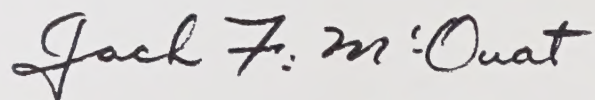
We are confident that with the continuation of the strong State support received to date, the City of Lost River can be developed to meet the needs of Lost River Mining Corporation, its major industry.

We have recommended that both your company and the City of Lost River undertake all detailed field investigations this year necessary to allow the completion in early 1973, of final feasibility and social studies.

We are confident that these final studies will confirm that a strong, long life, financially viable, fluorite-tin-tungsten mining and milling operation, can be established by Lost River Mining Corporation Limited and that the City of Lost River will become a self-sufficient free-standing community of material benefit, not only to its own residents, but to much of the population of the Seward Peninsula.

In closing we would like to express our appreciation of the co-operation we have received from members of your staff and the other consultants in completing our assignments to date.

Yours very truly,



Vice-President,

Watts, Griffis and McQuat Limited.





# CONSOLIDATED BALANCE SHEET

*December 31, 1971*

With 1970 figures for comparison

## *Assets*

CURRENT ASSETS	1971	1970
Cash and short term deposits . . . . .	\$ 892,994	\$ 58,428
Accounts receivable . . . . .	9,800	5,000
Advances and prepaid expenses . . . . .	5,074	—
	<u>907,868</u>	<u>63,428</u>
MINING PROPERTIES — at cost (Note 1)	<u>512,444</u>	<u>376,026</u>
FIXED ASSETS — at cost		
Diamond drilling equipment . . . . .	—	31,994
Machinery and equipment . . . . .	117,695	11,475
Office equipment . . . . .	5,180	1,441
Camp buildings . . . . .	14,560	—
	<u>137,435</u>	<u>44,910</u>
DEFERRED EXPENDITURES		
Exploration and development . . . . .	1,398,009	498,038
Administrative . . . . .	293,238	29,931
Commission on shares . . . . .	45,000	—
	<u>1,736,247</u>	<u>527,969</u>
	<u>\$3,293,994</u>	<u>\$1,012,333</u>

## *Liabilities*

CURRENT	1971	1970
Accounts payable . . . . .	\$ 143,989	\$ 66,662
Advance deposit on sale of drilling equipment . . . . .	—	10,666
	<u>143,989</u>	<u>77,328</u>

## *Shareholders' Equity*

CAPITAL STOCK (Note 2)		
Authorized		
5,000,000 shares, no par value		
Issued and fully paid		
1,830,005 for cash (1,000,005 in 1970) . . . . .	2,775,005	560,005
750,000 for mining properties . . . . .	375,000	375,000
	<u>3,150,005</u>	<u>935,005</u>
2,580,005	<u>\$3,293,994</u>	<u>\$1,012,333</u>

Approved on behalf of the Board:

"MURRAY WATTS", Director

"H. B. MEGILL", Director



# CONSOLIDATED STATEMENT OF DEFERRED EXPENDITURES

*For the year ended December 31, 1971*

With 1970 figures for comparison

EXPLORATION AND DEVELOPMENT EXPENSES INCURRED DURING THE PERIOD	1971	1970
Assays .....	\$ 18,820	\$ 21,980
Customs charges .....	2,099	5,061
Drafting .....	8,660	4,994
Diamond drilling .....	263,172	116,271
Engineering and consultants fees .....	143,971	21,373
Freight .....	45,333	11,428
Fuel and oil .....	37,493	40,336
General .....	13,143	2,731
Aircraft rental expense .....	76,380	98,387
Staking and surveys .....	2,321	10,240
Supplies and camp maintenance .....	50,115	30,119
Telephone and telegraph .....	1,973	6,562
Travel .....	39,515	22,605
Wages .....	135,700	101,713
Field management .....	32,789	—
Equipment rental .....	6,815	—
Insurance .....	1,472	4,238
Maps and reports .....	5,585	—
Employees' benefits .....	14,615	—
	899,971	498,038
<i>Add:</i> Balance at beginning of period .....	498,038	—
	<u>\$1,398,009</u>	<u>\$ 498,038</u>
ADMINISTRATIVE EXPENSES INCURRED DURING THE PERIOD		
Head office services .....	\$ 11,240	\$ —
Accounting and secretarial .....	6,533	4,849
Interest and bank charges .....	30,116	109
Foreign exchange .....	3,881	1,150
General expense .....	11,193	2,070
Professional fees .....	94,382	9,977
Telephone and telegraph .....	13,578	4,117
Transfer agent's fees .....	3,729	3,238
Travel .....	8,913	5,702
Insurance .....	1,789	—
Advertising and promotion .....	8,057	2,863
Wages .....	56,043	—
Licences, taxes and fees .....	6,919	—
Shareholders' information .....	13,362	—
Employees' benefits .....	3,783	—
	273,518	34,075
<i>Less:</i> Interest earned on deposits .....	10,211	4,144
	263,307	29,931
<i>Add:</i> Balance at beginning of period .....	29,931	—
	<u>\$ 293,238</u>	<u>\$ 29,931</u>



# CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

*For the year ended December 31, 1971*

With 1970 figures for comparison

SOURCE OF FUNDS	1971	1970
Sale of capital stock .....	\$2,215,000	\$ 560,005
Sale of fixed assets (net of 1970 advance deposit of \$10,666) ...	21,328	10,666
	<u>2,236,328</u>	<u>570,671</u>
APPLICATION OF FUNDS		
Exploration and development expenses .....	899,971	498,038
Administrative expenses .....	263,307	29,931
Investment in mining properties .....	136,418	1,026
Purchase of machinery, equipment and buildings .....	124,519	44,910
Commission on issue of shares .....	45,000	—
	<u>1,469,215</u>	<u>573,905</u>
Increase or (decrease) in working capital .....	767,113	(3,234)
Working capital or (deficiency) beginning of period .....	(3,234)	—
Working capital or (deficiency) end of period .....	<u>\$ 763,879</u>	<u>\$ (3,234)</u>
WORKING CAPITAL REPRESENTED BY:		
Current assets .....	\$ 907,868	\$ 63,428
Current liabilities .....	143,989	66,662
Working capital or (deficiency) .....	<u>\$ 763,879</u>	<u>\$ (3,234)</u>

## AUDITOR'S REPORT

To the Shareholders of  
LOST RIVER MINING CORPORATION LIMITED,  
Toronto, Ontario.

We have examined the consolidated balance sheet of Lost River Mining Corporation Limited and its subsidiary as at December 31, 1971 and the consolidated statements of deferred exploration, development and administrative expenses and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

April 15, 1972,  
Toronto, Ontario.

FULLER JENKS LANDAU & CO.,  
Chartered Accountants.



# NOTES TO FINANCIAL STATEMENTS

## 1. (a) MINING PROPERTIES

Under an agreement dated June 1, 1970 between the Company and Pan Central Explorations Limited formerly (P.C.E. Explorations Limited) Pan Central assigned all its interest in an agreement covering an option to purchase 36 mining claims in Alaska and all mining plant, buildings and equipment located thereon, together with 220 mining claims staked by Pan Central in the same area, in consideration for the issue of 750,000 treasury shares and \$40,000 cash in reimbursement of expenditures.

In order to maintain the option in good standing the Company is required to make the following payments together with interest at 6% per annum payable annually from January 15, 1971 and to be paid concurrently with each principal option payment:

- (i) U.S. \$120,000 on or before January 15, 1971 (paid)
  - (ii) U.S. \$ 50,000 on or before January 15, 1972 (paid)
  - (iii) U.S. \$ 50,000 on or before January 15, 1973
  - (iv) U.S. \$100,000 on or before January 15, 1974
  - (v) U.S. \$100,000 on or before January 15, 1975
  - (vi) U.S. \$220,000 on or before January 15, 1976
- (b) Under an agreement dated December 1, 1970, the Company acquired an option to purchase 6 patented mining claims in Alaska.

In order to maintain the option in good standing, the Company paid U.S. \$1,000 on December 1, 1970 and is required to make the following payments:

- (a) U.S. \$4,500 on or before January 1, 1971 (paid)
- (b) U.S. \$2,500 on or before October 1, 1971 (paid)
- (c) U.S. \$2,500 on or before October 1, 1972
- (d) U.S. \$2,500 on or before October 1, 1973

During the currency of the working option, the Company is required to complete U.S. \$10,000 worth of work in each of the years ending October 1, 1971, 1972 and 1973 on the said mining claims.

On completion of work commitments and option payments, the Company will have the right to purchase on or before October 1, 1974 these mining claims on the following terms of payment:

- (a) U.S. \$25,000 on or before October 1, 1974
- (b) U.S. \$25,000 on or before October 1, 1975
- (c) U.S. \$25,000 on or before October 1, 1976
- (d) U.S. \$25,000 on or before October 1, 1977
- (e) U.S. \$25,000 on or before October 1, 1978

The Company's counsel in Alaska is presently taking steps to verify and perfect the title to the mining claims at the expense of the company.

- (c) Investments in mining properties consist of the following:

Value assigned by directors for 750,000 shares issued for initial payment on option agreement on 256 claims in Cape Nome Recording District, State of Alaska . . . . . \$ 375,000

Subsequent cash payments covering option payments in 1(a) and (b) above and staking costs on new claims, all in the State of Alaska . . . . . 137,444  
\$ 512,444

## 2. CAPITAL STOCK

The authorized and issued capital of the company was changed from par value shares to no par value shares by Articles of Amendment dated June 23, 1971.

## 3. STOCK OPTIONS

- (a) Pursuant to an agreement dated February 23, 1971, the Company sold 300,000 of its treasury shares to Pan Central Explorations Limited at a price of \$2 per share.

By the terms of this agreement, the Company also granted to Pan Central options on 700,000 of its treasury shares at a price of \$2 per share to be exercised within nine months of February 23, 1971. The option date was extended to March 23, 1972. Pan Central assigned its option rights to 450,000 of the shares to other parties and exercised its option on the remaining 250,000 shares subsequent to the year end date.

- (b) The directors had reserved 130,000 unissued treasury shares of the capital stock of the Company for employee incentive options, which options would be allocated in amounts and prices set by resolution of the Board. Of these shares, the following were allocated during 1971:

- (i) 45,000 shares at \$2 per share (options on 30,000 exercised and the option on 15,000 expired).
- (ii) 30,000 shares at \$4 per share, exercisable up to October 1, 1975 only so long as the optionees remain employees of the Company.
- (iii) 55,000 shares unallocated were cancelled.
- (iv) Subsequent to the year end date 20,000 unissued treasury shares of the capital stock of the Company were set aside for a new employee incentive option plan. An option on 15,000 of these shares was allocated at \$4.75 per share, exercisable up to April 1, 1975 only as long as the optionee remains an employee of the Company.

## 4. SUBSIDIARY COMPANY

A wholly-owned subsidiary, Lost River Alaska Corporation was formed in 1971, under the Laws of the State of Alaska.

The accounts of that corporation have been consolidated with Lost River Mining Corporation Limited for these financial statements.

## 5. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers including the five highest paid employees amounted to \$74,880 for the year ended December 31, 1971.





*PHOTO AT THE LEFT ILLUSTRATES THE NEW CAMPSITE WHICH INVOLVES SLEEPING AND LIVING QUARTERS, OFFICE, WAREHOUSE AND ENGINEERING FACILITIES. TO THE RIGHT, ANOTHER VIEW OF THE CAMP, SHOWING THE FULL ELECTRIFICATION OF ALL BUILDINGS. DURING PEAK PERIOD OF 1972 PROGRAM, ROUGHLY 35 MEN WILL BE ON LOCATION.*





DRAMATIC AIRBORNE PHOTO BELOW, TAKEN ABOUT A HALF-MILE OFFSHORE AND LOOKING NORTH FROM THE BERING SEA, SHOWS THE PROPOSED TOWN AND DOCK SITES FOR THE NEW CITY OF LOST RIVER. AT EXTREME RIGHT, LOWER CORNER, IS EARLY STATE OF ALASKA AIRSTRIP, AND ALONGSIDE IT IS THE STATE ROAD. JUST BELOW THIS IS THE PROPOSED LOCATION FOR DOCK FACILITIES CAPABLE OF HANDLING SHIPS OF UP TO 35,000 TON DISPLACEMENT. EXTENDING EASTWARD, TO THE RIGHT FROM HERE, WILL BE THE NEW TOWNSITE, REACHING TO AND EVENTUALLY ACROSS LOST RIVER ITSELF, AT LOWER RIGHT. VALLEY TO THE RIGHT OF THE LOST RIVER VALLEY WILL BE THE DAMSITE.

